

State Lands Commission
200 OceanGate, 12th Floor
Long Beach, CA 90802-4331

PRC _____
(W _____)

This lease shall be recorded
in short form as requested by
the State Lands Commission.

_____ County

STATE OIL AND GAS LEASE
(Negotiated-Subsurface-Royalty)

This State Oil and Gas Lease, which is effective _____, 20__, is entered into
pursuant to Division 6 of the Public Resources Code between the State of California,
acting through the **State Lands Commission**, hereafter referred to as the **State**, and
_____ referred to as the

Lessee. The **operator** of this lease will be:

(Name)

(Address)

(City, State, Zip Code)

(Telephone)

In consideration of the advance payment made by the Lessee, which includes the first
year's rent and any required cash bonus, and the covenants, conditions, agreements
and stipulations contained in this lease, the State leases to the Lessee the lands
described in Exhibit "A" which contain approximately _____ acres located in
_____ County, California, and which will be referred to as the **leased**
lands.

1. TERM AND PURPOSE OF LEASE

(a) This lease shall be for a primary term of five (5) years and for so long thereafter as oil or gas is produced in paying quantities from the leased lands, or so long as the Lessee is diligently conducting producing, drilling, deepening, repairing, redrilling or other necessary lease or well maintenance operations on or in the leased lands. If the Lessee fails to commence the operations before or to prosecute them diligently after the expiration of the primary term, this lease shall terminate. Whenever the leased lands cease to produce oil or gas, the lease will continue in force if within six months after production ceases, or such longer period as the State may authorize, the Lessee commences and prosecutes with reasonable diligence, drilling, deepening, repairing, redrilling or other operations for restoring production of oil or gas from the leased lands.

(b) The Lessee shall have the exclusive right to prospect for, drill for, produce and take only oil, gas and other hydrocarbon substances from the leased lands. The Lessee may conduct geological and geophysical surveys on the leased lands for the purpose of determining subsurface conditions only with the consent of the State. The State may permit others to conduct geological or geophysical surveys on the leased lands as provided in sections 6212.2 and 6826 of the Public Resources Code and applicable regulations of the State.

(c) This lease does not give the Lessee the privilege or right to store gas or dispose of produced fluids or other wastes within the geological zones underlying the leased lands or any other privilege or right not expressly stated.

(d) The Lessee shall not have any expressed or implied right to use for any purpose any portion of the leased lands to a depth of five hundred (500) feet. All drilling into or through the leased lands shall be done by directional drilling from adjacent or other

nearby lands.

2. RENTAL

(a) The Lessee shall pay to the State on or before each lease anniversary date the rental provided in Exhibit "B". The rental shall be based on the total State acreage under lease on the lease anniversary date.

(b) The annual rental shall continue until the date the State accepts the Lessee's quitclaim for all the leased lands.

(c) If the Lessee quitclaims any portion of the leased lands as to all zones, the annual rental shall be reduced proportionately. This reduction shall take effect on the next lease anniversary date following the date of the State approved partial quitclaim.

3. ROYALTY

(a) In addition to the rental, the Lessee shall account for and pay to the State in money as royalty on oil a percentage, as provided in Exhibit "B", of the current market price of all oil removed or sold from the leased lands. The current market price shall be determined by the State and shall include any premium or bonus paid for the oil. The current market price never shall be less than the highest price in the nearest field at which oil of like gravity and quality is being sold in substantial quantities. Money royalty on oil shall be due no later than the fifth day of the second calendar month following the calendar month in which the oil is produced and shall be paid in accordance with procedures prescribed by the State.

(b) At the State's option, exercised upon sixty (60) days written notice and in lieu of money royalty on oil, the Lessee shall deliver to the State in kind at the lease automatic custody transfer meter its royalty percentage, as provided in Exhibit "B", of all oil removed or sold from the leased lands. If the State elects to take in kind its royalty

share of oil produced from the leased lands, the State may require the Lessee to provide at the Lessee's shipping tanks, without charge to the State, tankage of sufficient capacity to store the State's royalty share of oil produced from the leased lands during any continuous forty-eight (48) hours.

(c) In addition to the rental, the Lessee shall account for and pay to the State in money as royalty on gas substances a percentage, as provided in Exhibit "B", of the current market price of all gas substances removed or sold from the leased lands. Gas substances shall consist of dry gas, including vented and flared gas except during testing with approval of the State, natural gasoline and other products extracted and saved from the gas produced from the lease lands. The current market price shall be determined by the State and shall include any premium or bonus paid for the gas substances. The current market price never shall be less than the higher of the highest price in the nearest field at which gas substances of like quality are being sold in substantial quantities or the net proceeds or exchange value derived by the Lessee from the gas substances removed or sold from the leased lands. Money royalty on gas substances shall be due no later than the fifth day of the second calendar month following the calendar month in which the gas substances are produced and shall be paid in accordance with procedures prescribed by the State.

(d) At the State's option, exercised upon sixty (60) days written notice and in lieu of money royalty on gas substances, the Lessee shall deliver to the State in kind at the location where gas substances are valued for payment of royalty in money its royalty percentage, as provided in Exhibit "B", of all gas substances removed or sold from the leased lands. If the lessee owns or controls or has a contractual right to use a pipeline from the lease to the place where the gas substances are marketed, the State shall

have the right to use that pipeline free of charge for the disposition of its royalty share of gas substances when taken in kind.

(e) If the State elects to take in kind its royalty share or shares of oil or gas substances, or both, it may elect thereafter, upon sixty (60) days written notice, to take its royalty share or shares in money, and upon like notice at any time thereafter, may elect to take its royalty share or shares either in kind or in money.

(f) All royalties payable to the State, whether in money or in kind, shall be without any deductions, including deductions for the cost of producing, gathering, separating, compressing, treating, dehydrating, processing, transporting and otherwise making the oil and gas substances marketable. All money royalties payable to the State shall be without any deductions for the costs of marketing the State's royalty share of oil and gas substances.

4. ROYALTY STATEMENTS

The Lessee shall furnish monthly true royalty statements in whatever form the State prescribes. At a minimum, the statements shall show for the production calendar month the amount, gravity and market price of all oil and the amount and market price of all gas substances removed or sold from the leased lands and the number of days each well is on production.

5. DISPOSITION OF ROYALTY

When not taken in kind by the State, the Lessee shall be empowered to convey good title to the State's royalty share of oil and gas substances only if their sale or other disposition has been first approved in writing by the State. The proceeds from the sale of the State's royalty share of oil and gas substances shall be held by the Lessee in trust for the State until the Lessee makes a full royalty payment to the State.

6. SUBMISSION OF SALES CONTRACTS AND EXCHANGE AGREEMENTS

The Lessee shall file with the State, within sixty (60) days of their execution by all parties, copies, certified by the Lessee to be true, of all contracts and other agreements for the sale, exchange or other disposition of all oil and gas substances produced from the leased lands.

7. EXAMINATION OF RECORDS AND INSPECTION OF PREMISES

(a) The Lessee shall keep and have in its possession books and records showing the production and disposition of all oil, gas and other hydrocarbon substances produced from the leased lands and shall permit the State or its agents to examine such books and records at all reasonable times.

(b) The Lessee also consents to the inspection at all reasonable times by any person authorized by the State of its operations on, in or adjacent to the leased lands, including wells, improvements, machinery and fixtures used in connection with those operations. All reasonable and necessary costs for the administration and implementation of inspections of lease operations shall be paid by Lessee through a State Standard Reimbursement Agreement or other acceptable instrument. All costs shall be calculated under provisions of the State Administrative Manual.

8. PRODUCTION FACILITIES AND MEASUREMENT OF PRODUCTION

(a) The Lessee shall furnish to the State for its approval detailed plats, drawings and other pertinent data concerning the oil and gas facilities and pipelines to be used for the production, processing, measurement and transportation of oil, gas and other hydrocarbon substances from the lease lands. Data showing any proposed alterations in the facilities and pipelines also shall be furnished to the State for its approval. The Lessee shall not proceed with the construction or alteration of any facilities or pipelines

until it receives the approval of the State. After completion of construction, the Lessee shall provide to the State "as-built" drawings showing the exact location of all facilities and pipelines.

(b) The Lessee shall install whatever sampling and measuring equipment the State deems necessary for the sampling and measuring of the oil, gas and other hydrocarbon substances. The Lessee shall measure and account for all oil, gas and other hydrocarbon substances produced from, used on or transported from the leased lands in accordance with the terms of this lease and the regulations of the State. The State shall have the right at all times to witness the measurement and sampling of all oil, gas and other hydrocarbon substances. The State may elect to measure and sample the oil, gas and other hydrocarbon substances in the presence of a representative of the Lessee. The Lessee shall furnish samples of oil, gas and other hydrocarbon substances that are required by the State for laboratory tests. The Lessee shall be given the opportunity to witness the tests conducted by the State, and the readings and results of those tests shall be binding on the Lessee.

9. PRODUCTION FOR LEASE OPERATIONS

(a) With the approval of the State, the Lessee may use oil produced from the Lessee's wells drilled into the leased lands only for operations on the leased lands. Oil so used shall be reported to the State monthly. Such oil shall not be included in computing for royalty purposes the total production of oil removed or sold from the leased lands during the month and the current market price of such production, but shall be used in computing the average production of oil per well per day for the purpose of determining the royalty rate under any provision for a sliding scale royalty.

(b) With the approval of the State, the Lessee may use gas produced from the

Lessee's wells drilled into the leased lands, or gas received currently in exchange for gas so produced, for the following purposes only: fuel, gas lift, injection into oil sands from which the well or wells may be producing and re-injection into the leased lands. Gas so used, or gas given in exchange for gas so used, shall be reported to the State monthly, but shall not be included in computing for royalty purposes the total production removed or sold from the leased lands during the month and the current market price of such production. The Lessee shall pay royalty on all vented and flared gas except during State-approved testing.

10. JOINT AND SEVERAL LIABILITY

If the Lessee consists of more than one person or entity, each person or entity comprising the Lessee shall be liable jointly and severally for the performance of all of the Lessee's obligations under this lease.

11. DESIGNATION OF OPERATOR

With the approval of the State, the Lessee shall designate an operator who shall give and receive all notices, make all payments and submit all data and materials required by this lease.

12. NOTICES

All notices to be given under this lease shall be by electronic media producing a permanent record or in writing. When given in writing, the notice shall be given personally or by registered or certified mail, return receipt requested, and addressed to the State and to the operator at their addresses given at the beginning of this lease. All notices shall be effective when received.

13. TAXES

The Lessee shall pay timely all taxes, assessments, fees, charges or other amounts

levied for any reason under the laws and regulations of any state, county, city or the United States against the Lessee, the Lessee's interest in the leased lands, improvements placed on the leased lands by the Lessee or oil, gas or other products produced from the leased lands. There shall be no deduction from the royalties payable to the State by reason of the levy or payment of any such tax, assessment, fee, charge or other amount.

14. EXPLORATION REQUIREMENT AND DEVELOPMENT OBLIGATIONS

(a) Within one hundred twenty (120) days after the effective date of this lease, the Lessee shall submit to the State for approval an exploration plan for the leased lands, which plan shall include a complete project description and shall provide at least for the drilling of one well. The plan shall be subject to whatever environmental review may be required under the California Environmental Quality Act (CEQA). The Lessee shall provide funds sufficient to pay for the preparation of any environmental documents required for this environmental review. The running of the primary term shall be suspended during whatever period for environmental review may be required by CEQA. Upon the completion of whatever environmental review may be required and receipt of all necessary permits and approvals, the Lessee shall commence and diligently prosecute exploratory operations in accordance with the approved exploration plan, which shall include whatever measures are necessary to mitigate significant adverse environmental effects.

(b) No later than one year after a discovery in paying quantities, the Lessee shall submit to the State for approval a development plan for the discovered pool or pools. The plan shall be subject to whatever environmental review may be required under CEQA. The Lessee shall provide funds sufficient to pay for the preparation of any

environmental documents required for this environmental review. If there is no production in paying quantities from the leased lands at this time due to factors beyond the control of the Lessee, the running of the primary term shall be suspended during whatever period for environmental review may be required by CEQA. Upon completion of whatever environmental review may be required and receipt of all necessary permits and approvals, the Lessee shall commence and diligently pursue development operations in accordance with the approved development plan, which shall include whatever measures are necessary to mitigate significant adverse environmental effects. Development plans for later discovered pools capable of production in paying quantities shall be submitted to the State for approval within one year of discovery.

(c) The Lessee shall diligently pursue the acquisition of all permits necessary for conducting drilling and producing operations on the leased lands.

15. SUBMISSION AND DISCLOSURE OF DATA

(a) The Lessee shall file promptly with the State true copies of all geophysical data covering the leased lands and all logs (including electric and computer generated logs), surveys, drilling records, well histories, core records, formation tests and related information as measured and recorded in the course of drilling, for the wells drilled into or through the leased lands. All data and information filed by the Lessee with the Division of Oil, Gas and Geothermal Resources in connection with this lease, whether or not held in confidential status by the Division of Oil, Gas, and Geothermal Resources, shall be submitted to the State for its use in enforcing compliance with the terms of this lease and regulations of the State. The State shall have ready access to all rock cores and samples that may be obtained during drilling.

(b) All data and information supplied in confidence by the Lessee under this

paragraph shall be kept confidential by the State and shall not be disclosed to any person or agency without the written consent of the Lessee or unless their disclosure is required by law. Notwithstanding the above, the State may disclose any data or information filed by the Lessee to any governmental agency needing the data or information to regulate the leased lands or adjacent lands, provided that the disclosure is made pursuant to an agreement with the governmental agency specifying the purposes for which the data and information may be used and requiring the data and information to be kept confidential, and that notice is given to the Lessee of the nature of the information and data that are disclosed, the governmental agency to which they are disclosed and the purposes of their disclosure.

16. COMPLIANCE WITH LAWS AND OPERATIONAL REQUIREMENTS

The Lessee shall comply with all valid laws, rules and regulations of the United States and of the State of California and its political subdivisions applicable to the Lessee's operations, including, but not limited to, the applicable provisions of Divisions 3 and 6 of the Public Resources Code and the regulations of the Division of Oil, Gas and Geothermal Resources and the State Lands Commission. The lessee shall also comply with any special operating requirements set forth in Exhibit "C". The Lessee shall abide by all measures designed to mitigate the environmental impacts of its operations under this lease set forth in any environmental studies required to be completed prior to the consideration and approval of exploratory and developmental activities.

17. DEVELOPMENT REQUIREMENTS

(a) An oil or gas zone is defined as any sequence of strata containing oil, gas or other hydrocarbon substances, where the reservoir characteristics, such as pressure, temperature, specific gravity, viscosity, permeability and porosity, are similar and

wherever such sequence of strata is separated from dissimilar producing strata by a competent layer of shale or other impervious rock.

(b) After oil or gas is discovered in paying quantities in any oil or gas zone in the leased lands, the State may require the Lessee to drill wells to each commercially productive oil or gas zone, if it is mechanically practicable to do so and is consistent with the actions of a prudent operator having due regard for the interests of both the State and the Lessee, as follows:

- i. At least one well for the production of oil into each forty (40) acres, or major fraction thereof, of area contained in the leased lands.
- ii. At least one well for the production of gas or gas condensate from any zone which produces gas or gas condensate into each one hundred sixty (160) acres, or major fraction thereof, of area contained in the leased lands.

(c) The drilling requirements set forth in this paragraph are required for and are applicable to each separate commercially productive oil and/or gas zone. With the approval of the State, a well may be completed in more than one zone and shall be considered a well for each zone into which it is completed and producing for the purpose of satisfying the drilling requirements. The zones shall be segregated within the well bore and produced through separate tubing strings. The Lessee shall not be required to operate more than one drilling string at any time, unless the operation of more than one drilling string at any time is necessary in order to commence an offset well within the time required by this lease.

(d) The Lessee shall meet with the State's staff annually, at least thirty (30) days before the lease anniversary date, for the purpose presenting a report on its past and

present development activities and its plans for future development of the leased lands.

18. APPROVAL OF DRILLING

Any well or wells drilled into or through the leased lands in accordance with the provisions of this lease shall be drilled only on a course and to an objective approved in writing by the State prior to the commencement of drilling. The Lessee shall submit a detailed well drilling program to the State for its review and approval prior to commencement of drilling. Any significant changes in the approved drilling program, such as altering the casing program or redrilling, deepening or abandoning a well, shall require advance approval by the State.

19. OFFSET WELLS

If any well producing in paying quantities only gas substances has been, is or shall be completed on other than the leased lands, with any part of its producing interval within fourteen hundred eight-nine (1489) feet from the exterior boundary of the lease, or if any well producing in paying quantities oil has been, is or shall be completed on other than the leased lands, with any part of its producing interval within five hundred (500) feet from the exterior boundary of this lease, the State may notify the Lessee in writing to drill an offset well. Within the time specified in the notice, which shall be a reasonable time taking into account the availability, type and location of facilities required and which in no event shall be less than one hundred twenty (120) days from the date of the notice, the Lessee shall commence operations for the drilling of an offset well on the leased lands to the same zone as that zone from which such well is or is capable of producing oil or gas. An offset well for the production of only gas substances shall mean a well, the midpoint of the producing interval of which is situated at a location on

the leased lands not more than fourteen hundred eighty-nine (1489) feet from the point on the boundary of the lease nearest to the producing interval of the well to be offset.

An offset well for the production of oil shall mean a well, the midpoint of the producing interval of which is situated at a location on the lease lands not more than five hundred (500) feet from the point on the boundary of the lease nearest to the producing interval of the well to be offset.

20. WELL SPACING AND RATES OF DRILLING AND PRODUCTION

The State shall have the right to determine the spacing of wells and the rate of drilling and rate of production of wells to prevent the waste of oil and gas and promote the maximum economic recovery of oil or gas from, and the conservation of reservoir energy in, each zone or separate underground source of supply of oil or gas covered in whole or in part by this lease.

21. PREVENTION OF WASTE AND DILIGENCE

The Lessee shall use all reasonable precautions to prevent waste of oil and gas in the leased lands and to prevent the entrance of water through wells drilled to the oil or gas-bearing strata that may damage or destroy the oil or gas deposits. The Lessee shall exercise reasonable diligence in the operation of the wells while the products therefrom can be obtained in paying quantities and shall not unreasonably or unnecessarily suspend operations. All operations shall be conducted in a proper and worker-like manner, in accordance with generally accepted good oil field practices and regard for the protection of the safety and health of workers.

22. POOLING AND UNITIZATION

(a) In the interest of increasing the ultimate recovery of oil or gas, protecting oil or gas from unreasonable waste, arresting or ameliorating land subsidence or protecting

adjacent landowners, the State may require the Lessee to enter into a unit or cooperative agreement with respect to the leased lands.

(b) With the consent of the State and under terms and conditions approved by the State, the Lessee may pool or unitize all or part of the leased lands with lands held by the Lessee or others. Drilling operations on and production from lands so pooled or unitized with the leased lands shall be deemed to be drilling operations on and production from the leased lands that are included in the pooled area or unit. If less than all of the leased lands is pooled or unitized, this lease shall be severed and shall be considered as separate leases on separately pooled or unitized acreage. Any part of the leased lands not pooled or unitized shall remain fully subject to the terms of this lease and shall be unaffected by operations or production on the pooled or unitized portion of the leased lands or on acreage pooled or unitized with a portion of the leased lands.

23. LIABILITY, INDEMNIFICATION AND INSURANCE

(a) The Lessee shall be liable to the State for all damage to any reservoir underlying the leased lands and any loss of oil, gas or other hydrocarbon substances to the extent that they are caused by the negligence of, or the breach of any provision of this lease by, or noncompliance with any applicable statutes or regulations by the Lessee, its employees, servants, agents or contractors. Nothing in this lease shall diminish any other rights or remedies that the State may have in connection with any such negligence or breach.

(b) The Lessee shall indemnify the State for and hold it harmless from all claims, including claims for loss of or damage to property and injury to or death of a person or persons, arising out of or connected with the issuance of this lease or acts or omissions

by or on behalf of the Lessee under this lease or on the leased lands. The Lessee waives any defense to an action for breach of a covenant of this lease or for damages resulting from an oil spill or other harm to the environment based on the fact that the act or omission complained of was committed by an independent contractor. The Lessee agrees to assume responsibility for all acts and omissions of its independent contractors.

(c) The Lessee shall procure and maintain at the Lessee's sole cost and expense a commercial general liability policy of insurance applying to the leased lands and to the operations of the Lessee concerning the lease whether or not occurring on the leased lands. The insurance shall include broad form contractual liability insurance coverage insuring all of the Lessee's indemnification obligations under this lease and naming the State as an additional insured by endorsement. Such coverage shall have liability limits of at least Two Million Dollars (\$2,000,000) per occurrence and a general aggregate limit of at least Five Million Dollars (\$5,000,000); provided, however, that such liability limits may be provided through a combination of primary and excess (i.e., umbrella) insurance policies. Any liability insurance policy shall apply to all bodily injury, property damage, personal injury and other covered loss, however occasioned, during the policy term, and shall provide that the coverage shall be primary and that any insurance maintained by the State shall be excess insurance only. The coverage shall also contain commercially reasonable endorsements as reasonably requested by the State. The insurance shall provide for severability of interests; shall provide that an act or omission of any one of the named or additional insureds shall not reduce or avoid coverage to the other named or additional insureds; and shall afford coverage of all claims based on acts, omissions, injury and damage, which claims occurred or arose (or

the onset of which occurred or arose) in whole or in part during the policy period. All policies shall be issued by insurers admitted to transact business in California and having a rating of at least A:XI in the then-current edition of Best's Insurance Guide. The Lessee shall deliver a certified copy of each insurance policy to the State as soon as practicable after securing the insurance. All policies shall contain an undertaking by the insurer to notify the State in writing not less than thirty (30) days prior to any material change in, or reduction in coverage, cancellation or other termination of, the policy. The Lessee shall furnish the State with proof of renewal or binders for new insurance at least thirty (30) days before the expiration date of each policy. The Lessee may self-insure all or part of its risk with the approval of the State.

24. CANCELLATION

If the Lessee fails to exercise due diligence and care in the prosecution of the exploratory or development work in accordance with the terms and conditions of this lease prior to the discovery of oil or gas substances in paying quantities and if the default continues after thirty (30) days written notice to the Lessee, the State may cancel this lease. After discovery of oil or gas substances in paying quantities, this lease may be canceled upon failure of the Lessee, after ninety (90) days written notice, to comply with the provisions of this lease or applicable statutes or regulations. In the event of cancellation, the Lessee shall have the right to retain any wells as to which no default exists, together with the minimum acreage required to insure compliance with applicable well spacing requirements. If this lease is terminated, in whole or in part, the Lessee shall have a reasonable time to remove any property, equipment and facilities used by the Lessee in operations under the terminated portion of this lease.

25. SUSPENSION OF OPERATIONS

(a) The State may temporarily suspend production or any other operation by the Lessee under this lease whenever the State finds that the operation, unless suspended, would pose an immediate and serious threat to life, health, property, the environment or natural resources. The suspension shall be effective immediately upon either oral or written notice by the State to the Lessee. Any oral notice shall be followed by written confirmation from the State. The State shall lift the suspension when the State finds, on the basis of evidence submitted by the Lessee or otherwise available, that resumption of the suspended operation no longer would pose an immediate and serious threat to life, health, property, the environment or natural resources. If the State orders suspension of operations because their continuation would or might cause or aggravate subsidence of the leased lands or other properties, the operations shall be resumed only in compliance with a State approved program for subsidence prevention.

(b) Upon the written request of the Lessee, the State may temporarily suspend production or any other operation by the Lessee under this lease if the State determines, from evidence submitted by the Lessee or otherwise available, that the suspension will facilitate the assignment or unitization of this lease, will allow for negotiation for the use of hydrocarbon transportation facilities, will prevent waste of oil or gas, will provide time for compliance with federal, state or local statutes or regulations, will allow for remedying the effects of acts of God, or will otherwise facilitate the proper development of the leased lands. The suspension shall be on terms and conditions provided by the State and shall be terminated whenever the State finds that the conditions warranting the suspension no longer exist. During any period of suspension, the Lessee shall immediately inform the State of any change in the conditions warranting suspension.

(c) No suspension ordered or approved under this paragraph shall relieve the Lessee from any obligation under this lease unless specifically provided in the terms of the suspension. However, any suspension under this paragraph ordered or approved during the primary term shall stop the running of the primary term during the period of suspension.

26. POLLUTION AND CONTAMINATION OF WATERS PROHIBITED

(a) Pollution and contamination of state waters, impairment of and interference with bathing, fishing or navigation in state waters, and impairment of and interference with developed shoreline recreational or residential areas are prohibited. No oil, tar, residuary product of oil or any refuse of any kind from any well works shall be deposited on or allowed to pass into state waters. If any refuse capable of snagging or otherwise interfering with any type of fishing gear is deposited on or allowed to pass into state waters, the Lessee shall promptly report the incident to the State and submit to the State a map showing the exact location of the refuse.

(b) The permission given in section 6873(b) of the Public Resources Code to the deposition in state waters of water not containing any hydrocarbons or vegetable or animal matter and drill cuttings and drilling mud which are free of oil and materials that are deleterious to marine life, shall not supersede any restrictions on the deposition of such substances which are contained in this lease.

27. BOND

The Lessee shall furnish upon execution of this lease and maintain a bond in favor of the State of California in the sum provided in Exhibit "B" to guarantee the faithful performance by the Lessee of all provisions of this lease, Division 6 of the Public Resources Code and the regulations of the State, including, but not limited to, the

plugging and abandonment of all wells and the removal of production facilities and the immediate elimination of any contamination or pollution caused by or resulting from operations under this lease. The bond shall require the surety to give at least one hundred fifty (150) days written notice of its intention to cease acting as guarantor. If a surety gives notice of its intention to cease acting as guarantor, the Lessee shall provide to the State within forty-five (45) days of such notice a replacement bond of equal value to become effective upon the expiration of the existing bond. Failure to provide such a replacement bond within the required time shall constitute a default entitling the State to levy against the entire amount of the existing bond.

28. ASSIGNMENTS AND OTHER TRANSFERS

(a) With the approval of the State, this lease may be assigned, transferred or sublet to any person, association of persons or corporation who at the time of the assignment, transfer or sublease possesses the qualifications provided in Public Resources Code section 6801. Any assignment, transfer or sublease shall take effect on the first day of the month following its approval by the State and the filing with the State of an executed counterpart thereof, together with any required bond and proof of the qualifications of the assignee, transferee or sub-lessee to hold this lease or any interest in it. Unless approved by the State, no assignment, transfer or sublease shall be of any effect. Upon approval of any assignment, transfer or sublease, the assignee, transferee or sub-lessee shall be bound by the terms of this lease to the same extent as if the assignee, transferee or sub-lessee were the original lessee, any conditions in the assignment, transfer or sublease to the contrary notwithstanding.

(b) Any transfer of a separate portion of this lease or of a separate or distinct zone or geological horizon, or portion thereof, shall segregate the transferred portion from the

retained portion. The approval of the transfer shall release the transferor from all obligations thereafter accruing under this lease with respect to the transferred lands or zones or horizons. The lease on any segregated portion of the lands or zones or horizons shall continue in force for the primary term of this lease, but for not less than two years after the date of discovery of oil or gas substances in paying quantities upon any of the lands or zones or horizons originally subject to this lease, and so long thereafter as oil or gas substances are produced in paying quantities from such segregated portion.

(c) With the approval of the State, transfers may be made of parts of this lease that are on their extended term because of production. The lease on any segregated portion containing only undeveloped lands or zones or horizons shall continue in force for two years and so long thereafter as oil or gas substances are produced in paying quantities from such segregated portion.

(d) The Lessee shall submit to the State documentation of any acquisition, merger, name change, corporate reorganization or any other organizational restructuring that affects the entity which holds this lease.

29. QUITCLAIM OR RELINQUISHMENT

The Lessee may make at any time a written quitclaim or relinquishment of all rights under this lease or of any portion of the leased lands comprising a ten-acre parcel or multiple thereof in a compact form, or of any separate or distinct zone or geological horizon or portion thereof underlying a ten-acre parcel or multiple thereof in a compact form. The quitclaim or relinquishment shall be effective when it is filed with the State, subject to the continued obligation of the Lessee and its surety to pay all accrued rentals and royalties and to abandon all wells drilled on, into or through the leased lands

or in the zones or horizons to be quitclaimed or relinquished and to restore such lands in accordance with Paragraph 30 and all other terms of this lease and the regulations of the State. At the option of the State, the Lessee may be required to place all wells in condition for suspension instead of abandoning them. The Lessee shall then be released from all obligations thereafter accruing under the lease with respect to the lands, zones or horizons quitclaimed or relinquished. However, the quitclaim or relinquishment shall not release the Lessee or its surety from any liability for breach of any obligation of this lease with respect to which the Lessee is in default at the time of the State's acceptance of the quitclaim or relinquishment.

30. RIGHTS AND OBLIGATIONS UPON TERMINATION

At the expiration of this lease or upon its sooner quitclaim or other termination, the Lessee shall surrender the leased lands and all improvements on them in good condition, or the State may provide that the Lessee shall remove some or all of the structures and other fixtures placed upon the leased lands and restore the lands, in whole or in part, to their natural condition at no cost to the State. The Lessee shall not be denied the right to remove any drilling, development and production equipment having a reuse or salvage value.

31. RESERVATIONS TO THE STATE

The State reserves the right to grant, upon its own terms, joint or several easements or rights of way upon, through or in the lease lands as may be necessary or appropriate and consistent with this lease, and the right to allow, upon its own terms, the continued use of any existing easement or right of way upon, through or in the leased lands. The State also reserves the right to lease, sell or otherwise dispose of whatever transferable interest it may have in the surface of the leased lands, subject to the reasonable use by

the Lessee of the surface for lease operations if surface use is allowed by the terms of this lease.

32. SUCCESSORS AND ASSIGNS

This lease shall inure to the benefit of and be binding on the successors and assigns of the parties.

33. FAILURE TO ENFORCE

The failure of the State to enforce any provision of this lease, which includes the exhibits, shall not constitute a waiver by the State of that or any other provision.

34. DISCRIMINATION

Lessee shall not discriminate against any person or entity, in regard to the administration or operation of this lease, on the basis of race, color, creed, national origin, sex, marital status, religious or political affiliation, ancestry, disability, age or sexual orientation.

LESSEE:
State Lands Commission

LESSOR:
State of California

By: _____
(Signature)

By: _____
(Signature)

(Name of Officer)

(Name of Officer)

(Title)

(Title)

Date: _____

Date: _____

ATTEST

ATTEST

EXHIBIT "A"

LAND DESCRIPTION

EXHIBIT "B"

RENTAL, ROYALTY PERCENTAGE AND BOND REQUIREMENTS

1. RENTAL

The annual rental for this lease shall be _____dollars
(\$_____) per acre or fraction of an acre for a total of _____
dollars (\$_____) for approximately _____ acres.

2. ROYALTY PERCENTAGE

The royalty percentage on gas substances shall be fixed at _____ percent
(____%). The royalty percentage on oil shall be fixed at _____ percent
(____%).

3. BOND

The performance bond or other security to be furnished and maintained by the Lessee
shall be in the sum of _____ dollars
(\$_____). The State may review, from time to time, the sufficiency of the bond and
modify its amount and its terms as it deems necessary to ensure performance by the
Lessee of all of the covenants and obligations under this lease.

EXHIBIT "C"

SPECIAL OPERATING REQUIREMENTS